No. 05-130

In the Supreme Court of the United States

EBAY, INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF BUSINESS SOFTWARE ALLIANCE, SOFTWARE AND INFORMATION INDUSTRY ASSOCIATION, INFORMATION TECHNOLOGY INDUSTRY COUNCIL, AND INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA AS AMICI CURIAE IN SUPPORT OF PETITIONERS

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QUESTIONS PRESENTED

1. Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

2. Whether the Court should reconsider its precedents, including *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

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INTEREST OF THE AMICI CURIAE[1]

The Business Software Alliance (BSA) is an association of the world's leading software and hardware technology companies, including Adobe, Apple, Autodesk, Avid, Bentley Systems, Borland, Cadence Design Systems, Cisco Systems, CNC Software/Mastercam, Dell, Entrust, HP, IBM, Intel, Internet Security Systems, Microsoft, PTC, RSA Security, SAP, SolidWorks, Sybase, Symantec, Synopsys, The MathWorks, and UGS. BSA members are among the largest owners of patents, holding a total of more than 30,000 patents. They include three of the four largest U.S. patent recipients for 2005 according to data released by the Patent and Trademark Office. See Press Release, USPTO, USPTO Releases Annual List of Top 10 Organizations Receiving Most U.S. Patents, *at* http://tinyurl.com/c69e2 (Jan. 10, 2006). Micron, a member of amicus Information and Technology Industry Council, is the fourth large U.S. patent recipient.

The Software & Information Industry Association (SIIA) is the leading and largest U.S. trade association committed to protecting the interests of the software and digital content industries. SIIA represents over 700 companies that develop and market software and electronic content for business, education, consumers, and the Internet. SIIA's members include software companies, e-businesses, and information service companies; large, established companies and small start-ups.

The Information Technology Industry Council (ITI) represents the leading U.S. providers of information technology products and services. ITI members include Accenture,

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[1] Pursuant to Rule 37.3 of the Rules of this Court, the parties have consented to the filing of this brief, and the parties' letters of consent have been lodged with the Clerk. This brief was not written in whole or in part by counsel for a party, and no person or entity other than the amici curiae has made a monetary contribution to the preparation and submission of this brief.

Agilent Technologies, AMD, Applied Materials, Canon U.S.A., Corning, Eastman Kodak, eBay, EMC, Honeywell, Lexmark, Micron, National Semiconductor, NCR, Oracle, Panasonic, QUALCOMM, Sony Electronics, Sun Microsystems, Symbol Technologies, Tektronix, Time Warner, Unisys, and VeriSign.

The Information Technology Association of America (ITAA) provides global public policy, business networking, and national leadership to promote the continued rapid growth of the IT industry. ITAA consists of over 380 corporate members throughout the U.S. ITAA members range from the smallest IT start-ups to industry leaders in the Internet, software, IT services, ASP, digital content, systems integration, telecommunications, and enterprise solution fields. ITAA is secretariat of the World Information Technology and Services Alliance, consisting of 65 IT trade associations around the world.

Amici's members recognize that patents can promote technological innovation and are indispensable to the future of their own businesses, and Amici's members are frequently compelled to protect their own patent rights through litigation. Accordingly, Amici strongly support the effective protection of patent rights.

Increasingly, however, Amici's members are also among the principal targets of patent infringement lawsuits, many of which are initiated by "patent litigation firms" – *i.e.*, entities that are formed and acquire patents for the sole purpose of asserting infringement claims against other companies. Amici accordingly have a substantial interest in promoting the development of legal rules that are fair to both patentees and alleged infringers. Because of their members' unique perspective, Amici are particularly well-situated to explain the practical impact of the Federal Circuit's mandatory injunction standard on an industry that is critically important to

the Nation's economy,[2] and to discuss how the traditional equitable principles governing injunctive relief apply in the patent infringement context.

SUMMARY OF ARGUMENT

This case brings before the Court the standard that district courts should apply in determining whether to grant injunctive relief in patent infringement cases. The Federal Circuit held that "a permanent injunction will issue once infringement and invalidity have been adjudged" except in "'rare instances'" where such relief would "'frustrate[] an important public need'" such as protecting public health. Pet. App. 25a (citations omitted).

The Federal Circuit's automatic injunction standard is contrary to the plain language of the governing statute, promotes abusive litigation and deters innovation. This Court should make clear that in patent cases – as in virtually every other context involving injunctive relief – district courts should apply the traditional equitable factors to ascertain whether, based on all of the relevant facts and circumstances of the particular case, injunctive relief is an appropriate remedy. The Court also should take this opportunity to provide guidance to the lower courts as to how the traditional equitable factors apply in the patent infringement context.

The impact of the Federal Circuit's rigid standard on technology companies – just one of the many different fac-

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[2] In 2004, the information technology industry directly contributed $445 billion to the U.S. GDP. U.S. Dep't of Commerce, Bureau Econ. Analysis, *at* http://tinyurl.com/b72ym. More important, though, are the industry's *indirect* contributions to the economy: Chairman Greenspan has observed that "information technology" and "information innovation lie[] at the root of productivity and economic growth" in the economy as a whole. Remarks Before the Economic Club of New York, NY: Technology and the Economy (Jan. 13, 2000), *available at* http://tinyurl.com/a23za.

tual settings in which the Patent Act applies – demonstrates why equitable discretion is essential. Technology products typically consist of hundreds or thousands of patented components. It therefore is impossible for technology companies to investigate all of the patents, and pending patent applications, that may be relevant to a new invention, notwithstanding their best efforts to do so. When, as frequently occurs, the claim of infringement is not made until after the new product is released or the industry standard has been adopted, designing around the claim is no longer a realistic option. Because an injunction will issue automatically upon a finding of infringement – even if the claim relates to only an insignificant part of the product – the target of the claim is forced to pay an extortionate settlement in order to preserve its business.

These harmful effects are exacerbated by a new species of patent plaintiff – patent litigation firms, which buy patents solely to institute infringement actions. These "professional plaintiffs" often target agreed-upon industry standards, adding that standard to a pending patent claim and then asserting infringement against any entity employing the industry standard. Their bargaining leverage has been enhanced by creative use of the Patent Act's generous venue provision, which has made the Eastern District of Texas a new hub for patent litigation.

The Patent Act does not require these very significant adverse consequences. It expressly provides that district courts "*may* grant injunctions *in accordance with the principles of equity*." 35 U.S.C. § 283 (emphasis added). That is a clear congressional directive to apply the traditional equitable factors governing the availability of injunctive relief.

How those factors apply depends on the particular facts of each case. Thus, when the patentee practices its patent and competes with the infringing company, or grants an exclusive license to a third party that does so, irreparable injury will be easy to establish. If, on the other hand, the patentee is willing

to grant a nonexclusive license to anyone, it will have a hard time demonstrating that monetary damages are an inadequate remedy.

In assessing the balance of the hardships, the court must examine a variety of factors, such as whether the defendant made significant investments before it learned of the alleged infringement; whether the injunction would require the defendant to redesign its product in a way that would limit interoperability; the nature of the patentee's investment and when it asserted the particular claim before the PTO; and whether the injunction will serve simply to increase the patentee's negotiating leverage. With respect to the final factor – the public interest – the district court must examine not just the interest in patent enforcement, but also potential burdens on third parties, including the disruption of technology already in widespread use.

ARGUMENT

COURTS MUST APPLY THE TRADITIONAL EQUITABLE FACTORS IN DETERMINING WHETHER TO GRANT AN INJUNCTION IN A PATENT INFRINGEMENT ACTION.

Innovation processes and patenting practices vary widely among different industries. See Nat'l Research Council for the Nat'l Academies, A PATENT SYSTEM FOR THE 21ST CENTURY 37 (Stephen A. Merrill et al. eds., 2004); Wendy H. Schacht & John R. Thomas, Cong. Research Serv., PATENT REFORM: INNOVATION ISSUES 5 (July 15, 2005); Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1589-95 (2003). Many sectors, such as chemicals, pharmaceuticals, furniture, and hand tools, tend to follow the traditional patent paradigm of a consumer product protected by a handful of well-defined patents. See, *e.g.*, Fed. Trade Comm'n, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, Ch. 3, at 5-6 (Oct. 2003) [hereinafter FTC REPORT]. How-

ever, in other industries, such as computer hardware and software, aviation, financial services, telecommunications, and biotechnology, a single consumer product or service typically incorporates inventions reflected in hundreds or even thousands of patents, some of which may be defined ambiguously. See FTC REPORT, Ch. 3, at 15-56; Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, *in* 1 INNOVATION POLICY AND THE ECONOMY 119, 125-26 (Adam B. Jaffe et al. eds., 2000).

This Court has long recognized that "the essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it." *Hecht Co.* v. *Bowles*, 321 U.S. 321, 329 (1944). The realities of patent infringement litigation – as well as fundamental legal principles – require courts to employ this equitable discretion in the patent context. Indeed, precisely *because* our unitary patent system applies the same legal rules to a multitude of very different industries and technologies, it is essential that the standard governing the availability of injunctive relief enable district courts to take into account the particular facts and equities of each case.

We first explain the reasons why application of the Federal Circuit's rule that injunctions should be issued in virtually every case impedes innovation and promotes abusive litigation in technology industries. Next, we demonstrate that this Court's precedents compel the conclusion that district courts must exercise discretion in determining whether to grant injunctions in patent cases. We conclude by discussing how courts should apply the traditional equitable factors in the patent infringement setting.

A. The Practical Realities Of Infringement Litigation Involving Technology-Related Patents Demonstrate The Importance Of Equitable Discretion In Granting Injunctions.

1. The Federal Circuit's Automatic Injunction Rule Deters Innovation And Promotes Abusive Litigation.

Technology products typically are made up of very large numbers of patented components. Thus, computers, cellular telephones, MP3 players, as well as airplanes, cars and communications networks often contain thousands of different physical components, each of which may be the subject of many patents. A single computer program may contain hundreds or thousands of patented components. Nat'l Research Council, *supra*, at 37.

One reason for this phenomenon is the extraordinary complexity of these products. Another is the incremental nature of innovation in technology industries. A new drug product usually constitutes a separate and distinct invention protected by a few patents relating solely to that substance. FTC REPORT, Ch. 3, at 5-6. A new version of a software program or a new computer, on the other hand, virtually always builds upon pre-existing technology – adding new features based on new inventions but incorporating prior technology as well. *Id.* at 50-51.

When a technology business is developing a new device or a new computer program, it often is extraordinarily difficult – notwithstanding the business's best efforts – to identify all of the existing patents, and pending patent applications, that may be relevant to each of the hundreds or even thousands of components that make up that new product. FTC REPORT, Ch. 2, at 28. In the computer hardware industry, hundreds of thousands of patents are spread among tens of thousands of patentees. Bronwyn H. Hall & Rosemarie Ham Ziedonis, *The Patent Paradox Revisited: An Empirical Study*

of Patenting in the U.S. Semiconductor Industry, 1979–1995, 32 RAND J. ECON., No. 1, 101, 110 (2001).

With this myriad of often-overlapping patents, no technology business can review every potentially relevant patent before designing and commercializing a new product. As a result, the firm may invest substantial time and resources in a new product *before* becoming aware that an arguably patented technology is embedded somewhere within its design. This is especially true because the grant of a patent may lag the introduction of a product by many years, and may not be brought to the attention of the industry until many years after that. Shapiro, *supra*, at 126 ("In these industries, the danger that a manufacturer will step on a land mine is all too real.").

Moreover, patent infringement claims are easy to assert, but difficult to disprove. Especially in the technology context, the validity of a patent – as well as its legitimate boundaries – sometimes may be difficult to determine, which allows the assertion of extremely tenuous claims. See, *e.g.*, James Bessen & Michael J. Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1, 16 (2004) ("[C]ourt errors are difficult to avoid in patent litigation, because claim interpretation is complex and it is difficult for fact-finders to assess evidence of infringement. Thus, a deserving defendant may face a significant risk of liability.").

If a hardware or software company becomes aware of the possibility of a patent infringement claim before it designs a new product, it has the choice of designing around the allegedly patented technology or obtaining a license to use it. At that point, the cost of a license would reflect the relative difficulty of designing around the technology as well as the strength of the potential infringement claim. Stated simply, a strong patent that is difficult to design around can command a relatively high licensing fee, while a weak one that is easy to design around cannot. Shapiro, *supra*, at 125-26. Of

course, in some circumstances a technology company may not as a practical matter be able to design around a patent claim – such as when the claim would prevent the company from making new products compatible with existing ones, or with an industry standard that permits interaction with the products of other manufacturers. See pages 12-15, *infra*.

The situation becomes dramatically different from a business perspective when, as is often the case, an infringement claim is asserted *after* the company has already initiated production or invested substantial time and resources in research and development. At that point, backtracking to design around the now-integrated technology will almost certainly involve substantial expense, waste, and delay. Shapiro, *supra*, at 125-26. Indeed, "redesigning a product after significant costs have been sunk is usually not economically viable." FTC Report, Ch. 3, at 40. As a result, there will be overwhelming pressure on the company to obtain a license of the patent that allegedly is being infringed.

The Federal Circuit's automatic injunction standard provides extraordinary, unfair leverage to the potential infringement plaintiff in this situation. When an injunction is always or virtually always available, the potential plaintiff can demand a licensing fee that reflects the technology company's sunk costs and the losses that an injunction would inflict, not just the ordinary market value of the license. Adam B. Jaffe & Josh Lerner, INNOVATION AND ITS DISCONTENTS 112 (2004). Because an injunction will issue automatically upon a finding of infringement, this extreme bargaining inequality exists even if the patented technology is only an insignificant part of the product as a whole and the technology company "could easily have invented around [the patent] at an earlier stage, had [it] merely been aware that such a patent * * * existed." Shapiro, *supra*, at 126.

Even if the arguments with respect to infringement – or with respect to the validity of the patent – are weak, the

downside risk to the technology company is so great that the company has little ability to withstand the potential plaintiff's demands. The threat of disruption of the technology company's business is so significant that the incentives for the company to reach an agreement are overwhelming. Wesley M. Cohen et al., *Protecting Their Intellectual Assets: Appropriability Conditions and Why U.S. Manufacturing Firms Patent (or Not)*, Nat'l Bur. Econ. Research Working Paper No. 7552, at 27 (Feb. 2000) (patents can be used effectively to threaten litigation "even if they are weak or untested" because "[t]hey need only confer the right to sue and thus impose the costs of litigation and possible injunctive relief").

Computer and software companies are aware of these risks, and it has become industry practice to try to mitigate them through reciprocal licenses of intellectual property that reduce the risk of catastrophic business interruptions caused by the threat of patent infringement claims. See Shapiro, *supra*, at 127-28; Cohen et al., *supra*, at 19. Such cross-licensing arrangements are extremely useful to manufacturers and research entities generally, and especially those in the computer and software industries, because of the incremental nature of innovation – in the absence of cross-licensing, "an early patent holder has a potential claim against subsequent innovators," and subsequent innovators will, therefore, "perform a sub-optimal level of R&D or, perhaps, not * * * invest in the innovation at all." James Bessen, *Holdup and Licensing of Cumulative Innovations with Private Information*, at 2 (2004), *available at* http://tinyurl.com/7o6cq. Rather than assert every potential infringement claim, firms in these industries often agree to cross-license their patents, recognizing that while they will be "early patent holder[s]" in some cases, they will inevitably be "subsequent innovators" in others. See, *e.g.*, Shapiro, *supra*, at 127-28.

Cross licensing is an imperfect solution, however, when injunctions are virtually automatic. It is simply impossible to

conclude comprehensive cross-licensing agreements when there are hundreds or thousands of potentially relevant patents owned by hundreds of different patentees. FTC REPORT, Ch. 2, at 27. Inevitably, the technology company will not have obtained a license with respect to some number of patents that might be relevant to its products.

If the technology company does become the target of a patent infringement claim, the Federal Circuit's automatic injunction standard has the effect of coercing settlements even of claims that rest on invalid or inapplicable patents. A hardware or software company simply cannot afford to risk an adverse jury verdict and the injunction prohibiting the sale of its products that would follow as a matter of course. Paying an extortionate settlement is a logical business decision in these circumstances. Cf. *Blue Chip Stamps* v. *Manor Drug Stores*, 421 U.S. 723, 740-41 & 742-43 (1975) (recognizing the risk of unjustified settlements).[3]

Of course, the ill effects of these settlements are not limited to the companies that enter into them. They extend to consumers and our entire economy. Most obviously, any royalties paid "must be reflected in the price of final goods" sold to consumers. Shapiro, *supra*, at 126. In essence, these royalties "create[] a substantial 'innovation tax' that afflicts some of America's most important and creative firms" and, by extension, their customers. Jaffe & Lerner, *supra*, at 16.

Innovation also suffers. A firm that has been forced to enter into an exorbitant settlement will think twice before it invests the resources needed to bring a new product to market. The hardware or software company must consider whether the product under development will be sufficiently profitable

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[3] These settlements have the additional harmful effect of strengthening weak patents. Jaffe & Lerner, supra, at 115 ("the patentholder can use the fact that the first firm settled as evidence of the validity of the patent").

to cover not only development and production costs, but also a settlement payment on an unjustified infringement claim. Shapiro, *supra*, at 126 (concluding that the risk of infringement lawsuits will cause some firms to "avoid the mine field altogether, that is, refrain from introducing certain products for fear of holdup"). That additional burden inevitably deters innovation and – given the importance of the technology industries to the entire economy (see note 2, *supra*) – thereby inflicts significant damage upon our entire economy.

2. *The Harmful Effects Of The Federal Circuit Rule Are Aggravated By The Growing Phenomenon Of Patent Litigation Firms.*

These harmful effects have been exacerbated by the significant growth of "patent litigation firms" – entities that "buy patents from other companies (particularly bankrupt ones) not to practice but to assert against others" in infringement actions. FTC REPORT, Ch. 2, at 31; see also *Overstock.com* v. *Furnace Brook, LLC*, 2005 U.S. Dist. LEXIS 25983, at *1-2 (D. Utah Oct. 31, 2005).[4] They have no interest in the additional patent rights that would result from cross-licensing agreements, because they are in the business of filing lawsuits, not of inventing new products. Schacht & Thomas, *supra*, at 9.

Patent litigation firms typically do not assert infringement claims until the target of the claim has brought a product to

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[4] Patent rights today are starting to be purchased at auction by patent litigation firms in the same way that other "collectors" acquire cars and antiques. See Ocean Tomo, Spring 2006 Patent Auction, *at* http://tinyurl.com/cnull. Patent litigation firms often are referred to as "patent trolls" because – like the trolls in fairy tales who hid under bridges and attacked innocent passers-by – these modern-day equivalents attack unsuspecting technology companies. *E.g.*, Schacht & Thomas, *supra*, at 9.

market or a standard has been finalized by a standard-setting organization. The reason for this behavior is simple: it maximizes the value of the infringement claim. Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U. L. REV. 63, 69 (2004).

As we have discussed, once a technology company has invested substantial resources in design and production, an injunction – even one based on a relatively insignificant aspect of the product – becomes "a club to be wielded by the patentee to enhance his negotiating stance." *Foster* v. *Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974). Patent litigation firms thus reap significant benefits from the Federal Circuit's injunctive relief standard without actually obtaining – or, indeed, even having a particularly good case for – an injunction.

Even when there is a judicial determination of infringement the automatic injunction rule may produce results that are inconsistent with any concept of equity. In *NTP, Inc.* v. *Research In Motion Ltd.*, 418 F.3d 1282 (Fed. Cir. 2005), *cert. denied* (Jan 23, 2005), an injunction would force RIM to discontinue service to 3.65 million Blackberry users. This prospect caused RIM's stock price to fall twenty percent, and, after a tentative settlement for $450 million broke apart, observers have speculated the company may be forced to settle for up to $2 billion even though damages in the case currently stand at about $250 million and the PTO has now preliminarily ruled that virtually all of the plaintiff's claims are not patentable. Yuki Noguchi, *Court Rejects Blackberry Appeal; Ruling Could End Most U.S. Service*, WASH. POST, Jan. 24, 2006, at D4; Stephanie Stoughton, *RIM Pressured to Settle BlackBerry Case*, Associated Press, Dec. 15, 2005, *available at* http://tinyurl.com/exev8. Indeed, the Justice Department has questioned the propriety of injunctive relief – both as applied to government users and the public at large. See pages 29- 30, *infra*.

The potential for disruption of innovation is particularly serious when the patent litigation firm claims that its patent covers part of an existing industry standard – a claim that typically is not advanced until *after* the standard is adopted. See, *e.g.*, FTC REPORT, Ch. 2, at 22; see also *Rambus, Inc.* v. *Infineon Techs. AG*, 318 F.3d 1081, 1105 (Fed. Cir. 2003) (company that sought to patent an industry standard after the standard was published not liable for fraud).[5]

One small firm has recently asserted ownership of patents covering part of XML, "a widely used method for storing and sharing information in many forms, from purchase orders to information in Web pages" developed by the World Wide Web Consortium in the 1990s. Martin LaMonica, *Small Company Makes Big Claims on XML Patents*, CNET News.com, *at* http://tinyurl.com/a9dpq (Oct. 21, 2005). Another patent litigation firm claims to own a patent covering certain technology underlying JPEG, a standard method of sharing images on the Internet that was developed by the Joint Photographic Experts Committee. Matt Hines, *Graphics Patent Suit Targets Dell, Others*, CNET News.com, *at* http://tinyurl.com/ae73h (Apr. 23, 2004).

Changing an established standard is extraordinarily difficult: numerous technology companies have incorporated the standard into the products in order to provide the interoperability that customers demand. Janice M. Mueller, *Patenting Industry Standards*, 34 J. MARSHALL L. REV. 897, 902-04 (2001). The automatic injunction rule allows the belated claimant to extort settlements from all technology companies,

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[5] "In the most extreme cases, patent applicants add claims [to already pending applications] to cover ideas they never thought of themselves but instead learned from a competitor." Lemley & Moore, *supra*, 84 B.U. L. REV. at 76 (2004). Notwithstanding the apparent inequity, the Federal Circuit has expressly sanctioned this conduct. *Kingstown Med. Consultants, Ltd.* v. *Hollister Inc.*, 863 F.2d 867, 874 (Fed. Cir. 1985).

because the costs of changing the standard would be tremendous and, moreover, might not be practical at all if products based on the existing standard already had been released into market. If the patent owner neither practices the invention nor grants an exclusive license to an entity that practices it, but rather seeks to enter into nonexclusive license agreements with all interested parties, an injunction does nothing to safeguard for the patentee the "inherent technical advantages of the invention"; the patentee's own conduct shows that it is willing to share those advantages. Mark R. Patterson, *Inventions, Industry Standards, and Intellectual Property*, 17 BERKLEY TECH. L.J. 1043,1043-44 (2002). The threat of an injunction serves simply to empower the patentee to extract a larger payment because of vendors' need to incorporate the standard into their products to provide the interoperability that consumers demand.

A similar problem occurs when a firm belatedly asserts a patent on a well-developed *de facto* standard – *i.e.*, an informal standard that results from its popularity rather than its promulgation by a particular body – that users assumed had entered the public domain. See, *e.g.*, Jennifer A Kingson, *Two Patents, Many Lawsuits Aimed at Banks*, N.Y. TIMES, at C1, Dec. 25, 2004 (describing lawsuits filed against banks and other financial services firms in which a patent litigation firm claims to own patents covering "a way to store and retrieve transaction records electronically" that, "[g]enerally speaking, * * * is already the way that credit card transactions are processed and, increasingly, the way that paper checks are handled, too"). There too, the threat of an injunction is an effective tool for extracting huge settlements.

In light of such cases, it is hardly surprising that many firms choose to settle even weak claims. And while high-profile cases generally involve large, well-known companies, small firms are even more vulnerable to abusive litigation because they lack "extensive financial resources to engage in protracted litigation." Jaffe & Lerner, *supra*, at 13-14.

The pressure to settle unjustified infringement claims that stems from the potentially crippling effect of an injunction is increasing as a result of the forum shopping by infringement plaintiffs – particularly patent litigation firms – that has become a staple of today's patent litigation. See generally Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889, 937 (2001) ("[f]orum shopping is alive and well in patent litigation").

Patent infringement claims may be filed in any judicial district in which the defendant is subject to personal jurisdiction. 28 U.S.C. §§ 1400 & 1391(c). State long-arm statutes effectively subject defendants to personal jurisdiction anywhere that the alleged infringing product is sold or infringing process is practiced. For all large companies and many smaller ones, that means venue is available in any district in the Nation.

Although it is far from a corporate hub, the Eastern District of Texas – and Marshall, Texas, in particular – has in recent years become an extremely popular forum in which to file infringement claims. See M. Craig Tyler, *Patent Pirates Search Texas for Treasure*, 20 TEX. LAW., No. 29, at 39 (Sept. 20, 2004).

Indeed, "[t]he number of patent cases filed there jumped from 58 in 2003 to 110 in 2004, [to] 115 filed * * * through September [of 2005]." Alan Cohen, *From PI to IP; Texas Attorneys Transform Their Practices After Tort Overhaul*, 21 TEX. LAW., No. 36, at 15 (Nov. 7, 2005).[6] Plaintiffs' attorneys in East Texas have "transition[ed] from personal-injury

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[6] In 2004, the only other districts with more than 100 filings were San Francisco, Los Angeles, New York , Delaware, Chicago, New Jersey, and Philadelphia. Admin. Office of the U.S. Courts, JUDICIAL BUSINESS OF THE UNITED STATES COURTS 2004, at tbl.C3, Special.

work – in steady decline since the Texas Legislature got serious about tort reform – to intellectual property work, where business is booming." *Ibid.* The phenomenon has been given a catchy label: the "PI to IP transition." *Ibid.*

The reason for this patent litigation boom appears to be the perception that local juries are "plaintiff-friendly." *Ibid.*; see also Tyler, 20 TEX. LAW., No. 29, *supra*, at 40 ("Juries in East Texas * * * are much less likely to have a member with any technical training or education, which * * * makes East Texas federal courts an attractive venue for would-be plaintiffs, who know that the jury will, instead, gravitate toward softer or superficial issues that are difficult to predict."). The facts seem to bear out this appraisal. "Since 1994, patent owners have prevailed in 88 percent of all jury trials and 75 percent of bench trials in Marshall," (Cohen, 21 TEX. LAW., No. 36, at 16) figures that far exceed the national averages, see Kimberly A. Moore, *Judges, Juries, and Patent Cases – An Empirical Peek Inside the Black Box*, 99 Mich. L. Rev. 365, 386 (2000) (68% and 51%, respectively).

In many infringement cases, therefore, the defendant is faced with the prospect that an injunction with the potential to inflict substantial losses will be granted automatically if a jury predisposed to rule in favor of the plaintiff does so.

Finally, there are reasons to believe that these trends are accelerating. Empirical evidence indicates that patent litigation firms account for a growing share of patent infringement claims. A recently conducted survey of technology companies by the American Electronics Association (AeA) reports that patent litigation firms were the source of *83%* of the patent infringement demand letters received by the companies participating in the survey. AeA, *AeA Patent Survey Finds that Patent Litigation Impacts High Tech's Bottom Line*, AeA Competitiveness Series (draft, forthcoming 2006).

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In sum, the Federal Circuit's automatic injunction rule combines with other characteristics of the patent system to confer overwhelming and unfair leverage on patent plaintiffs. While defendants can use reciprocal licensing to gain some degree of certainty in preventing unreasonable settlement demands by technology companies and legitimate research institutions, that technique is far from comprehensive and has no effect on patent litigation firms. Elimination of the automatic injunction rule, so that courts may take the facts of each case into account in determining whether an injunction is appropriate, is necessary to balance the incentives in the settlement process and stem the tide of abusive litigation now being asserted by patent litigation firms.

B. The Patent Act Requires Courts To Apply Traditional Principles Of Equity In Determining Whether An Injunction Should Issue.

Section 283 of the Patent Act provides that district courts "*may* grant injunctions *in accordance with the principles of equity*." 35 U.S.C. § 283 (emphasis added). The statute's use of "may," not "shall," clearly signals that injunctive relief is discretionary, not mandatory. Cf. *N.Y. Times Co.* v. *Tasini*, 533 U.S. 483, 505 (2001) (construing similar language in Copyright Act to be discretionary).

Moreover, the statute expressly incorporates traditional "principles of equity," the foremost of which is that an injunction does not issue as a matter of course. *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305, 311 (1982). Rather, this "Court has repeatedly held that the basis for injunctive relief in the federal courts has always been irreparable injury and the inadequacy of legal remedies" as well as consideration of the balance of hardships between the parties and the public interest. *Id.* at 312.

Finally, the Court has consistently emphasized that the district courts' equitable discretion "is not to be denied or limited in the absence of a *clear* and valid legislative com-

mand." *Porter* v. *Warner Holding Co.*, 328 U.S. 395, 398 (1946) (emphasis added); *accord Romero-Barcelo*, 456 U.S. at 312; *Hecht*, 321 U.S. at 329. Here, of course, Congress's use of "may" expressly *reaffirms* the courts' equitable discretion.

The Federal Circuit's holding that "courts *will* issue permanent injunctions against patent infringement *absent exceptional circumstances*" (Pet. App. 28a (emphasis added)), is thus fundamentally inconsistent with the plain language of Section 283, as well as with this Court's clear precedent concerning the availability of equitable relief in federal courts.

The Federal Circuit's rationale for its automatic injunction rule is that "[b]ecause the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged." Pet. App. 26a (quoting *Richardson* v. *Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989)). A patent indisputably is a form of property. *Fla. Prepaid Postsecondary Educ. Expense Bd.* v. *Coll. Sav. Bank*, 527 U.S. 627, 642 (1999) ("[Patents] are surely included within the 'property' of which no person may be deprived by a State without due process of law."). But the Federal Circuit's analogy provides no justification for overriding the plain language of Section 283.

To begin with, the property rights conveyed by patents are circumscribed by the Patent Act. 35 U.S.C. § 261 ("*Subject to the provisions of this title*, patents shall have the attributes of personal property" (emphasis added)). And the Act does not provide that injunctions are always available; rather, district courts "may grant injunctions in accordance with the principles of equity." That language is controlling.

Moreover, by providing that "patents shall have the attributes of personal property" – not real property – the Act directs attention to a legal context in which courts apply the traditional equitable factors to determine whether injunctive

relief is appropriate. See, *e.g.*, 43A C.J.S. *Injunctions* § 119 (2004) (an injunction will not be granted "to prevent the removal or conversion of personal property where the injury may be fully redressed by an action at law for damages").

Even in the case of a trespass to land, moreover, "injunctive relief * * * is discretionary and subject to equitable considerations, and it is not available as a matter of right." *Id.* § 132. In particular, where a landowner inadvertently constructs a building that encroaches slightly upon his neighbor's property but does not interfere with the use of enjoyment of the rest of the property, courts rarely, if ever, issue an injunction against the trespass.[7] In such cases, a "central consideration[]" for the court is the "interest in preventing extortion by the encroachee, who may use an injunction to 'compromise' the claim." *Id.* § 142. There simply is no basis in property law for the Federal Circuit's mandatory injunction rule.

Finally, nothing in this Court's decision in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), compels the Federal Circuit's approach. The Court there rejected the contention that proof of nonuse by the patentee by itself deprived the district court of the power to issue an injunction. See *id.* at 422. Indeed, the Court expressly

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[7] *See, e.g., Capodilupo v. Vozzella*, 704 N.E. 2d 534, 535-37 (Mass. App. Ct. 1999) (holding that no injunction should issue where the defendant's structure extended a few inches onto the plaintiff's property but caused the plaintiff no significant hardship, and removal would imperil the stability of the structure); *Kratze v. Indep. Order of Oddfellows, Garden City Lodge # 11*, 500 N.W.2d 115, 117-22 (Mich. 1993); *Amkco Ltd. v. Welborn*, 21 P.3d 24, 25-29 (N.M. 2001); *Malnar v. Whitfield*, 708 P.2d 1093, 1095 (Okla. 1985) ("where the encroachment is slight, the cost of removal will be great, and the corresponding benefit to the adjoining owner small, or adequate compensation by way of damages can be had, a court will ordinarily decline to compel removal").

left open the question whether in a particular case "a court of equity might be justified in withholding relief by injunction." *Id.* at 430. That conclusion is fully consistent with the statutory language directing courts to apply traditional equitable principles in deciding whether to grant injunctive relief.

The only logical interpretation of Section 283 is that the availability of injunctions turns upon the traditional equitable factors. We next discuss how those factors should apply in the patent infringement context.

C. The Traditional Equitable Factors Require A District Court To Assess The Particular Facts Of Each Case To Determine Whether An Injunction Is Appropriate.

This Court in *Romero-Barcelo* clearly articulated the four factors that federal courts must consider in deciding whether to grant an injunction: (i) whether the plaintiff is subject to irreparable injury; (ii) whether the plaintiff's legal remedies are adequate; (iii) the balance of hardships between the parties; and (iv) whether an injunction is in the public interest. 456 U.S. at 312. The first two factors, which are two sides of the same coin, are prerequisites to injunctive relief. *Ibid.*; *O'Shea* v. *Littleton*, 414 U.S. 488, 502 (1974).

These equitable factors do not disfavor injunctions in patent infringement actions. Far from it. As the following discussion makes clear, injunctions will virtually always be appropriate in the typical case of infringement in which a patentee practicing the invention sues a competitor in the same market selling products that infringe the patent.

However, as we have discussed (see pages 7-15, *supra*), some patent infringement claims deviate substantially from this paradigm. Application of the traditional equitable factors enables courts to identify situations in which a patent litigation firm is seeking an injunction for settlement leverage, not to prevent irreparable injury. They also require courts to take

account of the particular factual circumstances in which an infringement claim arises – for example, where issuance of an injunction would disrupt networks on which businesses and consumers rely – and avoid the tremendous costs that stem from reflexive issuance of an injunction. Indeed, that is the very purpose of equity: to fashion relief that fits the particular circumstances of each case.

District courts apply these factors in a myriad of contexts every day. They are well qualified to apply them in patent infringement actions. By considering the practical realities of specific industries, the facts of the case before the court, the dynamics of patent litigation, and the public interest, the district courts can and should do what the Federal Circuit's rule now prevents them from doing – "mould[ing] each decree to the necessities of the particular case." *Hecht*, 321 U.S. at 329.

While the outcome of this inquiry turns on the facts of each case, this Court can and should provide guidance to the lower courts regarding the application of the general equitable factors in the patent infringement context. With respect to each factor, there are several specific considerations that a court should assess to determine if injunctive relief is proper.

1. The Plaintiff Must Establish Irreparable Injury And Inadequacy Of Legal Remedies.

An irreparable injury is, stated simply, an injury for which there is no adequate remedy at law. 1 Dan B. Dobbs, LAW OF REMEDIES § 2.5(1) (1993). "The key word in this consideration is irreparable. Mere injuries, however substantial, in terms of money, time and energy * * * are not enough." *Sampson* v. *Murray*, 415 U.S. 61, 90 (1974) (quoting *Virginia Petroleum Jobbers Ass'n.* v. *FPC*, 259 F.2d 921, 925 (D.C. Cir. 1958)).

An easy case is presented when the patentee practices its patent and competes with the alleged infringer. When a patentee practices its patent, the patented technology's essential

value is often the competitive advantage it gives the patentee as the exclusive provider of a unique product or service. Moreover, if the patented technology is popular, the patentee may be able to parlay that success into increased sales of complementary products and consumer goodwill. Any attempt to quantify the loss of all direct and indirect benefits flowing from the patent would inevitably devolve into a battle of economists. "Accordingly, * * * a monetary award would be speculative because the amount of damages would be difficult or impossible to measure" accurately. 11A Charles A. Wright et al., FEDERAL PRACTICE & PROCEDURE § 2944 (1995). For the same reasons, a patentee that licenses its technology exclusively to a third party that in turn practices the invention has a strong case for irreparable harm. Infringement interferes with the exclusivity of the license, which is designed to transfer to the licensee the benefits that accrue to a patentee that practices its invention. It therefore will disrupt the relationship between the patentee and its licensee in a way that is difficult to reduce to monetary damages.

Where, on the other hand, a patentee grants a nonexclusive license at a set price to anyone willing to pay, irreparable injury will be difficult to demonstrate. Infringement certainly injures the patentee in an economic sense because it deprives the patentee of licensing revenues; however, the patentee's willingness to enter into a license with all comers may indicate that its loss is reparable through the payment of monetary damages. See Pet. App. 55a (citing "the plaintiff's willingness to license its patents [and] its lack of commercial activity in practicing the patents" in concluding that the plaintiff would not suffer irreparable harm).

Other cases will fall somewhere along the continuum between these examples. Thus, a patentee that manufactures a patented product may decide not to practice a particular patent because it determines that the costs of implementing the new technology – often an incremental improvement – out-

weigh the benefits of its use. This can occur when the patent represents an incremental improvement of existing manufacturing technology, but the cost of implementing that new technology exceeds the benefits that would accrue to the business. See *Continental Paper Bag Co.*, 210 U.S. at 428-29. If a competitor infringes the patent, damages may be just as difficult to quantify as in the case of the patentee that practices its patent, and the injury may be properly deemed irreparable.

Finally, there is no basis for recognizing a presumption of irreparable injury in the patent context. Such an approach would be contrary to the statutory language: the "principles of equity," incorporated into Section 283 include the general rule that the plaintiff must establish irreparable injury and inadequacy of legal remedies. *Rondeau* v. *Mosinee Paper Corp.*, 422 U.S. 49, 61-63 (1975); 11A Wright et al., *supra*, §§ 2942 & 2944. Indeed, this Court has stated that a "presumption [of irreparable injury] is contrary to traditional equitable principles." *Amoco Prod. Co.* v. *Vill. of Gambell*, 480 U.S. 531, 545 (1987).

The fact that Congress expressly created presumptions elsewhere in the patent statute, see 35 U.S.C. §§ 282, 293(b)(5)(D) & 295, but not here, undercuts any basis for inferring that Congress authorized a presumption of irreparable injury implicitly in Section 283. Without a clear congressional limitation, there is no basis for creating such a presumption. *Porter*, 328 U.S. at 398 (the district courts' equitable discretion is "not to be denied or limited in the absence of a clear and valid legislative command").

2. *The District Court Must Canvass All Of The Relevant Facts In Assessing The Parties' Relative Hardships.*

Principles of equity require courts to balance the hardship that an injunction would inflict on the infringing company against the harm withholding an injunction would

impose on the patentee. *E.g.*, *Romero-Barcelo*, 456 U.S. at 312. This balance requires close consideration of all of the facts of the particular case; relevant factors may include:

- harm to the patentee or its licensee if no injunction is issued;
- the patent owner's investment in the patent and the circumstances of its acquisition;
- whether the patentee presented its claims to the PTO before the alleged infringing activity became publicly known;
- whether the infringing company made significant investments dependent on the patented technology before it learned of the alleged infringement; and
- whether the injunction would require the defendant to redesign its product in a way that would render it incompatible with other products or services, causing products already in use by consumers to be negatively affected.

The court should consider the significance of the patent owner's investment in the patent and the circumstances of its acquisition, as well as the impact of the failure to grant an injunction on the patent owner's use of the patent. If the patent owner's investment was considerable and the patent owner is practicing the invention or has granted an exclusive license to a third party, the harm from failure to grant an injunction typically will be substantial.

Patent litigation firms, by contrast, often purchase obscure patents at bankruptcy "fire sales" for the sole purpose of asserting infringement claims against established companies. *E.g.*, *Overstock.com*, 2005 U.S. Dist. LEXIS 25983, at *1-2 ("[T]his case appears to involve a patent troll. * * * Defendant * * * purchased its patent at a bankruptcy auction in 2003 and, without any apparent attempts to practice it, has

since sent infringement letters to, among others, Williams-Sonoma, Inc.; Sharper Image Corporation; Gap, Inc.; Spiegel, Inc.; Eddie Bauer, Inc.; L.L. Bean, Inc.; and Ann Taylor Stores Corporation.").

When a patent is purchased cheaply for the sole purpose of demanding royalties from others, awarding damages in lieu of an injunction will rarely, if ever, constitute a serious "hardship." The infringement is unlikely to impair the patent's utility to the patent litigation firm, and existing licensing agreements may provide a basis for assessing damages.

The timing of the patentee's actual presentation of the particular claim to the PTO (either in the initial filing or through an amendment (see note 5, *supra*)) also may be relevant. If the plaintiff, or the patentee from whom the plaintiff purchased the patent, did not file the claim embodied in the patent until after the defendant released its product publicly or after industry standard-setters agreed on a standard, the patent owner's claim of hardship will be less weighty, and the burden on the defendant will be correspondingly greater, than if the claim had been filed prior to any public activity.

On the other side of the balance, if significant investments by the defendant are dependent on the patented technology, and the defendant did not learn of the patent until after those investments were made, an injunction will impose large redesign costs on the hardware or software company that could have been avoided had it been aware of the patent *ex ante*. An injunction may also produce significant hardship if it requires the redesign of a product that "present[s] compatibility problems with other products or between different versions of [the] product." Shapiro, *supra*, at 125.

In other contexts, courts routinely weigh such economic waste in the balance of the hardships. *E.g.*, *City of Harrisonville* v. *W.S. Dickey Mfg. Co.*, 289 U.S. 334, 337-39 (1933) (holding that no injunction should issue where abating a nuisance would require a city to abandon an existing sewage

treatment plant and construct a new one and harm to the plaintiff was slight in comparison); *Amoco Prod. Co.*, 480 U.S. at 545 (concluding that the balance of hardships favored the defendant oil companies, who "had committed approximately $70 million to exploration to be conducted during the summer of 1985 which they would have lost without chance of recovery had exploration been enjoined").

For example, in property cases in which a trespasser has built a structure that encroaches on his neighbor's property,

> [i]f the total cost of removal, including the loss of value in defendant's remaining building, [is] very high in comparison to the harm done to the plaintiff * * *, that disparity in economic consequences [is] a significant factor in determining whether to issue an injunction. Unless the equities [run] in the other direction, the injunction * * * [will] not issue[.]

1 Dobbs, *supra*, § 5.10(4), at 817. These courts frequently emphasize the need to "prevent[] extortion by the encroachee, who may use an injunction to 'compromise' the claim." 43A C.J.S. *Injunctions* § 142; *accord* RESTATEMENT (SECOND) OF TORTS § 941 cmt.c (1981) ("[T]o issue an injunction might make the court a party to extortion").

Similarly, before the creation of the Federal Circuit, courts recognized that "[a]n injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances. *It is not intended as a club to be wielded by a patentee to enhance his negotiating stance.*" *Foster*, 492 F.2d at 1324 (emphasis added); see also *Nerney* v. *N.Y., New Haven, & Hartford R.R.*, 83 F.2d 409, 411 (2d Cir. 1936) (injunction should not issue if it would cause "a much greater injury * * * to the infringer than a benefit to the patentee" and "the only real ad-

vantage to [the patentee] would be to strengthen its position in negotiating a settlement").[8]

Courts should also consider the significance of the patented technology to the whole of the infringing company's product. It may be inequitable to issue an injunction if the infringement involves only a minor component. For example, when the owner of the copyright for a short story that formed the basis of the film "Rear Window" sought to enjoin the film's re-release on television, in movie theaters, and on videocassette, the Ninth Circuit reasoned that the film:

> resulted from the collaborative efforts of many talented individuals other than * * * the author of the underlying story. The success of the movie resulted in large part from factors completely unrelated to the underlying story * * *. It would cause a great injustice for the owners of the film if the court enjoined them from further exhibition of the movie.

Abend v. *MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988), *aff'd sub nom. Stewart* v. *Abend*, 495 U.S. 207 (1990) *and cited with approval in Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1993).

The "injustice" described in *Abend* closely resembles the situation in which a software company inadvertently infringes a single patent in the course of designing and manufacturing a product that contains thousands of patentable technologies. The company probably could have invented around the patent with ease had it been aware of it *ex ante*, and "the patentable technology contributes little if anything

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[8] In contrast, the court below reasoned that "[i]f the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers." Pet. App. 27a.

to the final product, and any reasonable royalty would be modest at best." Shapiro, *supra*, at 125.

If an injunction is granted, however, the patentee can extract much more than a "reasonable royalty"; when the infringing company has made significant investments or redesign would be costly, the patentee can demand royalties that far exceed the contribution of the patented technology to the product as a whole. Compare *Gen. Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 654 (1983) (Congress amended the Patent Act in 1946 to exclude the infringer's gain as a basis for damages, thereby rejecting "the notion that [the patentee] should be able to force the infringer to disgorge the fruits of the infringement even if it caused him no injury").

3. The District Court Must Examine Every Aspect Of The Public Interest, Not Only The Public Interest In Patent Enforcement.

"In exercising their sound discretion, courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction." *Romero-Barcelo*, 456 U.S. at 312. Although the paramount "public interest" in the vast majority of patent cases is the promotion of innovation through the enforcement of patent rights, that is not the sole public interest that should be considered by a district court deciding whether to grant an injunction.

The Federal Circuit recognized that public health concerns may justify refusing to issue an injunction. Pet. App. 26a. Courts should consider other aspects of the public interest as well.

For example, the public interest would weigh against injunctions that would deprive the public of useful products or services or disrupt technology already in widespread use. The Department of Justice filed a Statement of Interest in the Blackberry litigation (see page 13, *supra*), explaining that the government had a substantial interest in ensuring that any

injunction entered in that litigation would not interfere with government users. The Justice Department further stated that "the federal government may have a further interest in this case to the extent that it is vital for it to be able to communicate in real-time with private parties, including government contractors, through BlackBerry™ devices. The government is currently assessing the extent of its interest in such communications, and the extent to which the public interest would be impaired by the award of any injunctive relief" in favor of the plaintiff in that case. United States' Statement of Interest, *NTP Inc.* v. *Research in Motion, Ltd.*, No. 3:01CV767 (E.D.Va.), at 2 (filed Nov. 8, 2005).

Patent claims based upon industry standards (see pages 14-15, *supra*) present a similar risk to third-party users, and the society as a whole, because injunctive relief generally would prohibit the use of technology needed to allow systems of interactive products and services to continue in operation. Courts must consider these and other effects on third parties in determining the "public consequences" of injunctive relief.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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JANUARY 2006